

Cashing in on your greatest asset used to be considered hazardous and selfish. But with the FSA

# Equity release shakes off its bad image

HOUSE prices have spiralled in Scotland in recent years while the pension crisis has deepened - which means a growing number of people are facing retirement "asset rich" but "cash poor".

Often, their biggest source of income could be the home they are living in, and releasing equity through either a lifetime mortgage or home reversion scheme, is becoming increasingly popular.

A lifetime mortgage involves a homeowner taking out a loan with interest being rolled-up and added to the total outstanding mortgage, instead of any monthly payments being made. The debt is repaid on selling the property when the homeowner dies or goes into long-term care.

Most such mortgages have a no-negative equity guarantee, so the debt should not exceed the value of the house.

Through a home reversion, the owner sells all or a proportion of the property at a discounted rate for a lump sum to a provider. When the house is sold, the agreed proportion or entire proceeds of the sale price are given to the company.

Equity release has been given a bit of a rough ride recently but now that the entire market is to fall under the remit of the Financial Services Authority (FSA) and reputable companies, such as Norwich Union and Standard Life Bank offer products, it is becoming a safer option.

Part of the recent criticism stems from the fear that unscrupulous financial salesmen are targeting vulnerable pensioners, but David Borrowman, managing partner at law firm Caesar & Howie, says this is a misconception.

He explained: "People who opt to release equity are normal-

ROSEMARY GALLAGHER

ly very switched-on and are clear about what they are doing. They are often more on the ball than first-time buyers and have generally studied the market before they find a specialist adviser. There's a lot of fuss about these people disinheriting their family, but often their kids have more money than them and don't want to see their parents struggling financially.

"The pleasure these products give people is tremendous. They often have a desire to stay in their home, or it might be impossible for them to trade down as there's nowhere else they can really afford. By releasing equity they can

**"Many see their house as a source of income when they get older"**

make lifestyle choices that suit them."

But recent research by Key Retirement Solutions (KRS), an independent advice firm which specialises in equity release, revealed that UK pensioners could have lost up to £127 million in the last year alone by not shopping around for the most competitive lifetime mortgage in the market.

Its analysis found the difference between the highest and lowest rate available amounts to more than £8,700 in interest over a 20-year term for someone who releases an average of £51,900 from their home.

With more than 20 providers offering around 40 deals it can be difficult for people to ensure they have the best quote.

KRS says that in the last five years, the demand for equity re-

lease mortgages has risen by 100 per cent, with many in or nearing retirement releasing equity in their homes to supplement their pensions, or to give money to their family to pay towards their education or help them on the housing ladder.

Dean Mirfin, business development director at KRS, said: "Equity release is not a straight-forward commodity product that should be bought purely on 'price', but it is still an important factor to consider, as the difference in interest payments between the best and worst rate on the market can equate to many thousands of pounds."

"On average, half of consumers who have taken out a plan this year have done so by going direct to a product provider. But getting advice from an independent adviser for equity release cannot be underestimated. Not only will an adviser assess whether equity release is the most appropriate route for a consumer looking to raise extra cash, but they are able to search the whole market for the most competitive deal to suit each individual consumer."

Figures calculated for *The Scotsman* by KRS reveal that almost 300,000 pensioner households in Scotland own property and £42 million of potential equity could be released.

Mirfin added: "Scotland is lagging behind the rest of the UK when it comes to accessing the equity in their homes and pensioners are suffering financially as a result."

Research released from the Financial Services Consumer Panel (FSCP) this week emphasises the importance of thoroughly researching the cost of releasing equity before agreeing to a deal. It found that down-sizing to a cheaper home is generally the most cost-effective



Many older people are using the cash stored in their homes to fund a new and exciting retirement

as a security net, switched-on pensioners are now liking the idea

**'I HAVE MORE CASH AVAILABLE ON A MONTHLY BASIS'**

JEAN Malcolm, 62, a widow from Edinburgh, has not worked for many years because of ill health. She decided to take out an equity release plan this year to ease the financial pressure of her monthly outgoings.

"I used the majority of the released funds to pay off the remainder of my mortgage, which in turn has reduced my monthly outgoings. I now have more cash available on a monthly basis, which is very useful," she says.

"I also used some of the money to buy myself some new furniture and a new fire, and have put some aside for emergencies. It gives me peace of mind knowing that I have some cash readily

available in case I should urgently require it one day.

"I am now able to stay in my own house for the foreseeable future, and my particular plan even allows me to move house if I want to."

Jean is very pleased with her experience and is keen to give advice to others considering it: "I would certainly recommend equity release as a good option to people who would like to release the wealth that is tied up in their home, but who do not wish to sell their property or make monthly repayments. It is useful as a way to improve finances in later life while ensuring that you can stay in your own home."

"I would add that it is very

important to make your family aware of your intentions before going ahead, as it is liable to leave a rather large hole in their inheritance. It is also very important to take advice from someone who is suitably qualified, such as an independent financial adviser, as they will be able to advise on the best scheme for your own circumstances. They are also able to arrange the plan on your behalf, so you don't have to worry about chasing people up, and they will keep you informed throughout the whole process."

● Jean arranged her equity release plan through Key Retirement Solutions and Caesar and Howie, the Central Scotland Law Group.

DAVID BORROWMAN

MOST Scots reaching retirement in the 21st century face a much brighter future than their predecessors last century.

But you should work with advisers to do a full financial and legal "MoT". It should cover:

1. Do you have to retire? New employment regulations came into force on 1 December compelling employers to discuss with employees the possibility of working on after 65. Working part-time may be better than making a sudden and complete withdrawal from the workforce.
2. Do a monthly and annual budget and ensure you can live with it in the property you own - income is likely to be static so this budget must be "lived with" permanently. If your budget does not work out comfortably, something has to give.
3. Review all insurances, utility suppliers and loans outstanding, ensuring you take credit cards or store cards into consideration. Look at the whole picture - often



David Borrowman: 'Forward planning is essential'

hundreds of pounds a year can be saved from these costs.

4. Review any investments: are they producing enough income, are they flexible enough to be used for care costs should these have to be met?
5. A staggering 95 per cent of the adult population has not yet granted a power of attorney to a trusted person. This could result in a big bill (possibly several thousand pounds) for a guardianship order, should incapacity strike. A simple and cheap power of attorney gets over this problem and removes much of the heartache and difficulty in-

olved with "sorting things out".

6. Inheritance tax - have you thought of this? Many families who do not consider themselves wealthy are caught by this tax when a little forward planning can defeat the taxman.

7. The capital in your house may be substantial - have you thought about releasing some of it by trading down or taking out an equity release product? Many people do this nowadays and find their lifestyle is hugely enhanced in their latter years.

8. Two-thirds of people do not make wills. Making a will is vital, as if you do not, the government will effectively make one for you at increased expense.

With some thought and forward planning, all of these matters can be dealt with. To encourage this, Caesar & Howie, the Central Scotland Law Group, have set up [www.seniorissues.co.uk](http://www.seniorissues.co.uk), which gives information about some of the issues involved.

● David Borrowman is managing partner of Caesar & Howie

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